

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 10 AND 29-30 OF CHAIRMAN'S INFORMATION REQUEST NO. 3

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 3, issued on January 6, 2017. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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January 25, 2017

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- 10.** Please report whether the Postal Service met the Universal Postal Union (UPU) quality of service measurement targets during CY 2015 or CY 2016. If it did not meet the targets for either CY 2016 or CY2016, please provide the amount of forfeited revenue for each quarter and annual period.

RESPONSE:

Please see the response filed under seal as USPS-FY16-NP35.

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- 29.** The following questions refer to Docket No. ACR2015, Library Reference USPS-FY15-30, December 29, 2015, Excel file "FY15 30 ACR_NSA_2015.xlsx," tab "2_MC2014-21 PHI NSA." Quarters 1, 2, and 3 of Contract Year 1 (columns S, T, and U) show zero volume and zero revenue for Standard Mail Flats. Quarter 4 (column V) shows volume and revenue for Standard Mail Flats.
- a. Please confirm that PHI began mailing Standard Mail Flats after the implementation of the Docket No. R2015-4 prices, which included the FSS price structure change.
 - b. Please provide the percentage of PHI Carrier Route, High Density, and High Plus volume that destined in FSS zones in FY 2015 Quarters 1, 2, and 3.
 - c. Please provide the percentage of PHI Carrier Route, High Density, and High Plus volume that destined in Non-FSS zones in Quarters 1, 2, and 3.

RESPONSE:

- a. After the implementation of Docket No. R2015-4 prices, mail that was previously tendered by PHI as Enhanced Carrier Route in FSS Zones was reclassified as Standard Mail Flats by the Postal Service.
- b. Starting in June 2015, the postage statements and related documents included the information needed to calculate the percentages. Prior to June 2015, the postage statements did not contain this information. In order to calculate these percentages, the Mail.dat™ files for PHI would be necessary. The Mail.dat™ files for this time period were cumulatively massive, were not archived, and thus the files for PHI are not available.
- c. Starting in June 2015, the postage statements and related documents included the information needed to calculate the percentages. Prior to June 2015, the postage statements did not contain this information. In order to

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calculate these percentages, the Mail.dat™ files for PHI would be necessary.

The Mail.dat™ files for this time period were cumulatively massive, were not archived, and thus the files for PHI are not available.

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- 30.** At the time of filing the PHI NSA, the average unit cost for Contract Year 1 was estimated to be \$0.179.⁷ In the FY 2015 ACR, the average unit cost for Contract Year 1 was \$0.187.⁸ In the FY 2016 ACR, the average unit cost for Contract Year 2 was \$0.216.⁹
- a. Please explain, in detail, why the average unit cost rose by over 15 percent from Contract Year 1 to Contract Year 2.
 - b. Please provide a quantitative analysis of costs from Contract Year 1 to Contract Year 2 for the mail pieces destined for FSS zones, including mail pieces that were sent at Carrier Route Basic prices in Contract Year 1 but were destined for FSS zones and incurred FSS mail processing costs instead of Carrier Route mail processing costs.
 - c. Has the Postal Service considered developing mailer-specific cost data in order to more accurately measure the net financial value of the PHI NSA?

RESPONSE:

a. The weighted average unit cost reported for PHI rose by over 15 percent from Contract Year 1 to Contract Year 2 due to the Postal Service classification change implemented in Docket No. R2015-4 that moved Carrier Route mailpieces in FSS zones to the Standard Mail Flats FSS category. This change in classification resulted in the costs applicable to PHI Carrier Route flats in FSS zones changing from Carrier Route costs to those of Standard Mail FSS Flats. The reclassification from a comparatively lower cost group to a somewhat higher cost group was a significant factor in the percentage increase of the reported average unit cost.

⁷ See Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Filing of Contract and Supporting Data and Request to Add PHI Acquisitions, Inc. Negotiated Service Agreement to the Market-Dominant Product List, March 5, 2014, Excel file "PHI_NSA_Financials.FINAL.xlsx," tab "3_Revenue and Cost," cell L20 (Notice).

⁸ Docket No. ACR2015, Library Reference USPS-FY15-30, Excel file "FY15 30 ACR_NSA_2015.xlsx," tab "2_MC2014-21 PHI NSA," cell L43.

⁹ Library Reference USPS-FY16-30, December 29, 2016, Excel file "FY16 30 ACR_NSA_2016.xlsx," tab "2_MC2014-21 PHI NSA," cell L34.

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b. The Postal Service does not have the information for Contract Year 1 (please see the response to Questions 29. b and c of this Information Request) and, therefore, cannot provide a comparison for Contract Year 1 to Contract Year 2.

c. The Postal Service has not developed mailer-specific cost data, but approximates mailer-specific costs by using customer-specific mailing characteristics and industry-wide average costs by rate category to develop customer-weighted average costs.